Testimony of

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On behalf of

The California Rice Commission

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Introduction

Good morning, Mr. Secretary and members of the Board

I am Don Bransford, a rice producer from Colusa, California. I serve on the Board of the California Rice Commission, which represents the entirety of the state's rice growers, milling and marketing organizations. I also serve as Chairman of the Rice Producers Group the committee within the Commission that develops national farm policy.

Thank you for holding this listening session and for the opportunity to express our views on farm policy and the farm bill.

As CDFA holds these hearings in preparation for the next farm bill, the California rice industry supports maintaining an effective farm safety net that includes a marketing loan program, as well as income support payments and planting flexibility.

Overall, continuation of the Farm Security and Rural Investment Act of 2002 (2002 Farm Act), with its strong safety net and planting flexibility provisions, is the best policy for the rice industry.

At this time, rice producers and others in production agriculture face an uncertain farm policy and personal financial future due to repeated proposals to cut our farm programs and the Doha Round World Trade Organization (WTO) negotiations.

For these reasons, the California rice industry supports an extension of the 2002 Farm Act in its current form until such time as the World Trade Organization provides a multilateral trade agreement that is approved by the U.S. Congress.

The 2002 Farm Act continues to provide rice producers with a safety net based on direct payments, counter-cyclical payments, and marketing loan benefits.

Without a doubt, the 2002 Farm Act continues to be a sound, effective investment in farmers and rural communities. More importantly, consumers benefit from the most stable, safe, abundant, and affordable food supply in the world.

The 2002 Farm Act's safety net needs to be continued in the next farm bill. National food security justifies it. Prolonged price spikes for key farm inputs of fuel and fertilizer, which are eroding farm income rapidly, also reinforce the need for reauthorization of the Act's safety net.

The provisions of the 2002 Farm Act need to be continued for the benefit of the environment. The $600 million in wetlands like habitat provided by the annual production of rice in the state demands it. Without rice, 500,000 acres of habitat supporting 235 species of wildlife will be lost in a state that can ill afford the loss of one acre.

Government Support to California Rice Producers

The Farm Safety Net & National Food Security

For nearly a century, one of the primary goals of agricultural policy has been to provide farmers with a safety net that helps them during periods of low market prices, while benefiting the nation's consumers.

2002 Farm Act Extension

In February of this year, California along with all 6 states of the U.S. rice industry met to discuss priorities and issues for the industry. Preservation of a strong safety net for production agriculture, as provided by the Farm Security and Rural Investment Act of 2002, is the number one issue for the industry. As such, the industry adopted the following resolution:

"Until such time as the World Trade Organization provides a multilateral trade agreement that is approved by the U.S. Congress, the U.S. rice industry seeks the extension of the 2002 Farm Bill in its current form."

There are a number of key factors that support extending the 2002 Farm Act until a final WTO agreement is in place.

1. Any reduction of the current programs and spending levels of the farm bill will result in the effect of "unilateral disarmament" by the U.S. and ultimately weaken our negotiating position with other countries. The current safety net should be maintained until a final WTO agreement is reached and approved by Congress.

2. Writing a new farm bill in advance of a final WTO agreement could result in a very short-term bill that must be rewritten once WTO negotiations are concluded and the new trade rules are known. Multiple farm bill authorizations in a short timeframe will weaken the predictability and stability that are key components of any effective farm safety net. This predictability is a key requirement for the lending community that provides financing for production agriculture and any changes that inject uncertainty into this safety net will lead to financing difficulties.

3. The current farm bill is working as it was designed in a counter-cyclical nature. It is a fiscally responsible approach to farm policy and provides a safety net when needed. As such, Congressional estimates of commodity program (CCC) spending through 2005 range from $13 – 19 billion below the levels estimated by the Congressional Budget Office (CBO) when the bill was approved in 2002. Total commodity spending for 2002-2007 is projected to be below the total level estimated in 2002.

Commodity Program Policies

Commodity programs are vital to the California rice industry's survival. The industry believes the following policies must be continued:

- Provide Califorina farmers an effective safety net.
- Support the rice program levels authorized in the 2002 Farm Act and oppose reductions in program benefits.
- Maintain planting flexibility.
- Continue marketing loan and loan deficiency payments structure and the certificate program.
- Continue to establish loan rates at no less than $6.50 per cwt.
- Support an income safety net for producers through a program including countercyclical income support, direct payments and marketing loan program.
- Compensate producers for current and future conservation/environmental practices that enhance water, soil, and air quality and wildlife habitat.

For the typical family farm that produces rice, economic survival is dependent upon a number of factors:

- An effective farm program, such as the Farm Security and Rural Investment Act of 2002, that provides basic support through marketing loan eligibility for all production and income support through counter-cyclical and direct payments;
- for rice operations of all sizes to maintain eligibility for farm program benefits;
- development and expansion of global markets.

The price for California rice is driven by world market conditions. International rice markets are highly volatile, thinly traded, and heavily influenced by interventionist polices in other nations as well as some aspects of U.S. foreign policy.

In recent years government payments to rice producers have increased, as low market prices increased producers' need for the income safety net provided by the 2002 Farm Act. This result is consistent with Congress' intended design of the Act.

The 2002 Farm Act's rice program includes:

- the loan rate, at $6.50/cwt, which has remained unchanged and has been frozen at the current level since 1989, despite an increase in the cost of production, in particular the large price spikes that began in 2005 and continue into 2006;
- direct payment rates, which were increased marginally, from $2.05/cwt at the end of the 1996 Farm Act to $2.35/cwt under the 2002 Farm Act;
- the target price of $10.50/cwt, on which the counter-cyclical payment program is based; the $10.50 target price is actually lower than the target price of $10.71 used under the 1990 Farm Act (the 1996 Farm Act contained no provisions for a target price), and substantially below the average target prices administered in either the 1981 or the 1985 Farm Acts.

The 2002 Farm Act was written during a period of extreme financial stress for rice growers. By 2001, average market prices had fallen each of the previous four years, to less than half (more than 56% below) 1996 levels, a time when rice prices had peaked. While prices have improved somewhat under the 2002 Farm Act, according to USDA, farm prices for rice in 2005 still remain more than 22% below the level received 10 years earlier (1995), and nearly 13% below the average farm price received over the five-year period between 1995 and 1999. In the meantime, production costs continue to rise, as operating costs (including hired labor and all other variable expenses) have increased nearly 30% just since 2000. Rising costs of fuel, fertilizer, and other necessary inputs are expected to push production costs even higher in 2006.

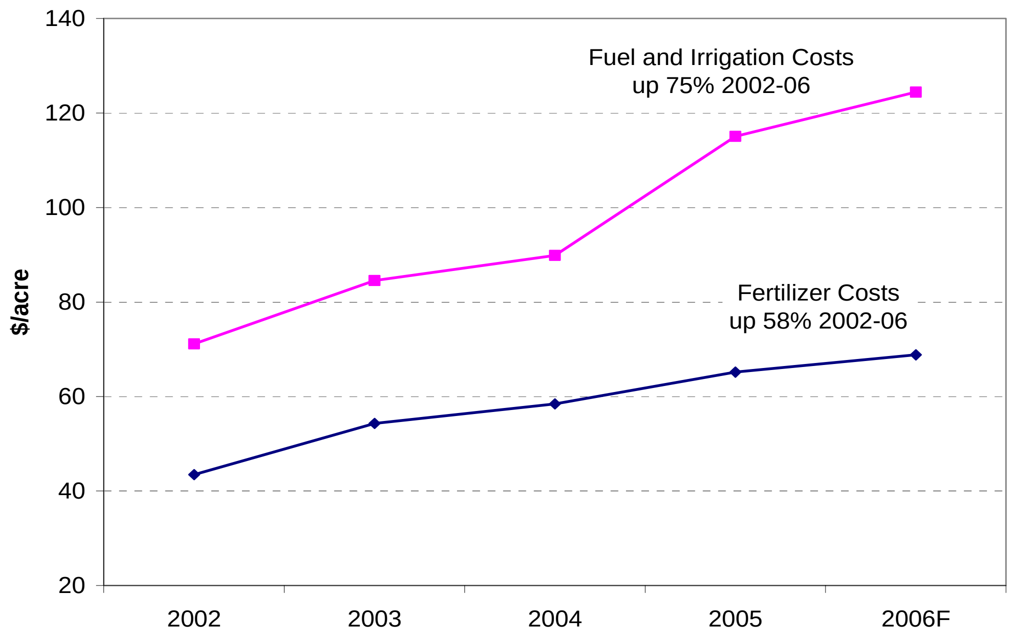
The planting flexibility and elimination of government stock holding that is central to the 2002 Farm Act is specifically designed to allow farmers to respond to market signals so that the long-term costs of government intervention—including costs associated with stock holding and related market inefficiencies—are minimized. This planting flexibility policy needs to be continued in the next farm bill.

Rice Production Costs

Production of rice is quite costly. It requires precision irrigation for efficient production, and intensive use of other production inputs.

According to data compiled by USDA's Economic Research Service, variable costs of production in 2005 exceeded $850 per acre, the highest of any major field crop. Variable costs of production in 2006 are forecast to exceed this figure per acre due to rising fuel and fertilizer costs.

Chart 1: Fertilizer, Fuel and Irrigation Costs 2002-06



These higher costs of production are having a direct impact already on 2005 crop returns and will impact producers' 2006 crop planting decisions and returns.

Even with the safety net in place, we have experienced much higher production costs. In particular fuel and fertilizer costs, have risen sharply and will continue to reduce rice profitability far below levels previously expected.

The current programs do not ensure individual rice farms can make a profit, and in the face of rising production costs many farmers—especially those who must rent much of their land—can experience significant losses despite the current farm programs or the recent improvement in market prices from their historically low levels.

While the farm price of rice strengthened in recent years, production costs have increased to their highest levels in history, eroding much of the benefit that farmers would normally expect from improved market prices.

In periods of low market prices, the marketing loan program provides important protection by helping to ensure that producers can cover their basic operating (i.e. variable) and ownership (i.e. taxes, insurance and depreciation) costs after the crop is harvested. Any reduction in the loan rate would leave producers vulnerable to being unable to cover production expenses when market prices fall, particularly as production expenses continue to rise as rapidly as they have in recent months.

The extent to which government programs—particularly the loan rate—assist rice farmers with market losses is in fact quite modest, particularly in light of rice's naturally higher production costs, which include extraordinary irrigation, land-leveling, and other management costs.

Marketing loan levels were raised for all major crops except soybeans and rice in the 2002 Farm Act. As stated previously, rice has maintained the same loan rate since 1989.

Farm policy, therefore, must recognize the fundamental differences in per acre costs of production in high input, high yielding crops such as rice.

Economic Contributions of the U.S. Rice Industry

Rice production contributes significantly to the economic activity of California, particularly in those rural communities where it is produced in significant quantities.

Rice Production

Rice production ranks in the top 20 most valuable crops produced in California contributing $342 million to the state's economy annually.

Rice is the economic engine that drives may rural economies in Northern California. In Colusa, Butte, Sutter and Yuba counties, rice is the predominant crop in these communities that carry on our agrarian heritage. In many other counties including Glenn, Tehama, Placer, Sacramento, Yolo and in the San Joaquin Valley, rice is an important part of the business and agricultural foundation that bring jobs and economic prosperity in rural California.

Beyond direct dollars rice generates thousands of jobs. As rice is grown, harvested and milled, scores of allied businesses step in to make it all work. Equipment dealers, fertilizer distributors, crop dusters, trucking and highly skilled labor all pitch in to get the crop in the ground and ultimately to the table. Economists estimate that for every dollar that the rice industry directly contributes to a local economy three dollars are generated through these allied businesses.

Economic Contribution to Key Industries

The U.S. rice industry and its allied industries are interdependent on one another. Grower's farming operations and the crops they produce create demand for allied industries and services, including seed, chemical, fuel, and implement dealers. These industries and others, in turn, provide the necessary jobs, services, equipment and other inputs that are required to process rice and ship it to its ultimate destination for use by food and other industries and, ultimately, consumers.

Ports: An extensive transportation and processing infrastructure has evolved alongside the farm-level rice production industry. These allied industries are highly dependent on the continued supply of rice to support their economic contribution to the overall economy.

For example, rice exports account for an important share of the shipping volume handled by a number of the state's key ocean ports, including Los Angeles, Oakland, Sacramento and Stockton. These activities employment of hundreds of port employees.

Although rice accounts for only a small share of outbound shipments at many of the nations largest ocean ports, the total volumes remain large and support the

Mills: In addition to the economic activity generated from rice farming, a large California rice milling industry performs the vital function of processing rice into forms useful to the food and feed industries. We estimate that rice milling industry employs more than 1,000 people, and supports an annual payroll in excess of $27 million.

Conservation Policies

California rice producers practice sound conservation as part of their overall farm management program. The California rice industry supports the following conservation policies:

- Compensation for conservation practices should be in addition to, not a substitute for, existing or future farm safety net programs including direct payments, marketing loan gain/loan deficiency payments, counter cyclical program payments, or any other farm income support payment program.
- Continuation of the Conservation Security Program (CSP) and any other new conservation funding should be targeted towards land that is in production or considered in production.
- There should be no payment limitations on conservation program payments and we oppose reductions on current conservation program limits.
- All conservation payment programs should be voluntary and incentive-driven.
- Conservation programs should be WTO consistent and should be designed and implemented to be Green Box measures.
- Idling land for conservation or wildlife habitat purposes should be considered planted acreage for base calculation purposes.

Wetlands, Waterfowl, and Wildlife

Rice farming is one of the few commercial enterprises that promotes wildlife habitat and improves biological diversity.

Since the very nature of rice production requires that fields be flooded for many months of the year, evidence shows unequivocally that it plays a vital role in supporting common environmental goals such as protecting freshwater supplies and providing critical habitat for hundreds of migratory bird species and other wetland-dependant species.

Rice fields are typically flooded for an average of eight months a year, during which time they become temporal wetlands with enormous significance to bird populations wintering and breeding in California. Both natural and agricultural wetlands are indispensable to them.

Flooded rice fields are also vital to migrant and wintering shorebirds. Rice fields provide feeding habitat for these migrant shorebirds. In fact, California rice acres now designated as “Shorebird Habitat of International Significance.” They are officially listed in the Western Hemisphere Shorebird Reserve Network. It is what growers do in the process of producing their annual crop that benefits over 14 species of shorebirds in the region. This is a tremendous benefit that is essentially “free” to the public only because of a viable rice industry. It is a strong safety net program (i.e. Commodity Title) that helps to secure these types of conservation benefits, year after year, on a consistent basis.

Without rice farming, wetland habitats in the United States would be vastly reduced. A loss of this magnitude would have a disastrous effect on waterfowl and a host of other wetland-dependent species.

With 95% of original wetlands now gone, the waterfowl, shorebirds, and other wildlife along the Pacific Flyway have come to depend on ricelands. At certain times of the year, rice acres now hold up to 60% of the millions of waterfowl in the Pacific Flyway. More than one million Northern Pintails have been counted in recent years during January waterfowl surveys in California's Central Valley. The Valley's rice country is now critical habitat for the recovery of this highly valued duck species. In addition, upwards of 300,000 shorebirds are known to use our fields annually.

The value of this habitat is stunning. If all rice acres in California were removed today and the public sector were to acquire and restore enough wetlands to support that same number of wintering waterfowl currently supported by rice, over 175,000 acres would have to be created. This would cost at least $600 million and the cost continues to increase with increasing land values. Once created, approximately $20 million would be spent each year to maintain these wetlands. Again, this substantial public resource benefit comes essentially "free" to the public because of a viable California rice industry. And, changing cultural practices, such as no longer relying on the burning of rice fields in California to remove the straw that remains after harvest, has resulted in a dramatic reduction in air pollution. Growers now spend $16-$20 million each year, in the form of alternative methods of rice straw management, to keep these emissions in check. Without rice, other more polluting urban and other industrial emission sources would likely take its place on the landscape. This further illustrates the rice industry's commitment to promoting a safer and cleaner environment for all of society.
Overall, California rice lands are known to be used by 183 species of birds, 28 species of mammals, and 24 species of amphibians and reptiles. In total, over 235 species of wildlife use California ricelands. Among these are over 25 species of special concern such as Long-billed Curlews, Bald Eagles, and Giant Garter Snakes.

By providing an environment favorable to wildlife advancement, rice production clearly generates positive environmental benefits to the economy and society.

Water Quality

Rice production in California must comply with the strictest water quality standards in the nation. For over 20 years, the rice industry has actively managed impacts rice farming has on water quality reducing the amount of key rice pesticides in the Sacramento River by over 99 percent. In addition, the California Rice Commission is the only commodity specific coalition group managing water quality under the Irrigated Lands waiver recently adopted by the Central Valley Regional Water Quality Control Board.

The use of water in the production of produces important environmental benefits. For instance,

- Water consumption for rice production is lower than for many other crops.
- Much of rice irrigation water is returned to its original source.
- Rice production counteracts other threats facing natural wetlands.

Other Key Policies

In addition to its commodity program, payment limit, and conservation policies, the California rice industry also supports the following other key policies:

Crop Insurance

- We support crop insurance as a supplement but not a substitute for the farm bill safety net, including efforts to improve the effectiveness and benefits of crop insurance programs for rice producers, particularly revenue and cost of production type policies.

Market Development Programs

- Reauthorize the Market Access Program (MAP) and Foreign Market Development Program (FMD) at not less than the levels established in the Farm Security and Rural Investment Act of 2002.
- Reauthorize the Emerging Markets Program.

Food Aid

- Reauthorize the P.L. 480 Program, including Titles I and II, and other food aid programs within the policies and at the levels established in the Farm Security and Rural Investment Act of 2002.
- Food aid should not displace commercial sales, and should only be provided in commercial U.S. rice export markets in times of food security emergencies.

Trade Policy Impacts on the U.S. Rice Industry

The U.S. market for imported rice is remarkably open, with U.S. tariffs on rice imports almost non-existent. Unfortunately rice remains among the most protected agricultural commodities among our trading partners–especially in Pacific Rim countries such as Japan and South Korea. As a result, the U.S. rice industry supports the elimination of all duties in importing countries and equal tariff treatment for all types of rice.

Despite the general continuing trend towards market liberalization, rice outside the United States has remained among the most protected agricultural commodities. The level of government intervention in the international rice market—i.e., trade barriers, producer supports, and state control of trade—is substantially higher than for any other grains or oilseeds.

This is a major factor contributing to price volatility in the international rice market and a fundamental reason why the California rice industry needs the stabilizing influence of current federal rice programs.

Because the California rice industry exports 40 percent of annual rice production, access to foreign markets is fundamental to the health of our industry. We believe that multilateral WTO negotiations and the South Korean FTA negotiations are the best way to bring down trade barriers worldwide. However, the Doha Round negotiations are also about agricultural domestic supports. Any agreement that improves market access will also limit the ability of the U.S. to use certain types of farm programs. Many of the details of any eventual agreement are still very much up in the air, and the overall effect of the final agreement on our industry will depend on the overall package that emerges. However, all agreements must result in meaningful, measurable market access gains that yield timely market access.

Conclusion

Thank you, again, Mr. Secretary, for holding this hearing and for the opportunity to express our views.

U.S. farm policy must provide a stabilizing balance to markets and a reliable planning horizon for producers.

With rice producers being severely impacted by interventionist policies enacted by foreign governments, stability and reliability must be bedrock features of our nation’s farm policy.

We urge you to carefully review how well the current Farm Act is working for California agriculture and consider ways to maintain its structure for commodity crops while addressing the needs of specialty crops as we go forward to begin debate on the next farm bill.

Rice producers call on CDFA to support sound, fair agricultural policies in the next farm bill, including those policies in the current farm act that help to provide:

- Commodity crop producers with stability and reliability;
- and consumers with an abundant, affordable, stable, safe, and secure food supply.

Rice producers look forward to working with CDFA in the development, adoption, and enactment of a sound, equitable farm bill and rice program.

In the interim, however, in light of the need for a strong safety net as part of U.S. farm policy, the California rice industry supports extending the 2002 farm bill in its current form until such time as a Doha Round trade agreement is negotiated and Congress approves it.

This concludes my testimony on behalf of the rice industry, Mr. Secretary.